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**Brenda
Mines
Ltd**

**Second
Annual
Report**

**December 31
1967**

AR30



ANNUAL GENERAL MEETING

**WADDINGTON ROOM
VANCOUVER HOTEL**

**JUNE 14, 1968
11 A.M. VANCOUVER TIME**

BRENDA MINES LTD.

DIRECTORS

B. O. Brynelsen, Vancouver, B.C.
M. E. Davis, Vancouver, B.C.
M. M. Menzies, Vancouver, B.C.
R. V. Porritt, Toronto, Ontario
A. Powis, Toronto, Ontario
W. S. Row, Toronto, Ontario
Hidemasa Kubo, Tokyo, Japan
Masao Nakamura, Vancouver, B.C.
Thomas Pilkington, Vancouver, B.C.

OFFICERS

B. O. Brynelsen, President
R. V. Porritt, Executive Vice-President
M. E. Davis, Vice President—Finance
M. M. Menzies, Vice President
A. W. Fisher, Secretary

TRANSFER AGENTS

Canada Permanent Trust Company
400 Burrard Street, Vancouver

SOLICITORS

Davis, Hossie, Campbell, Brazier & McLorg
14th Floor, 1030 West Georgia Street, Vancouver

AUDITORS

Peat, Marwick, Mitchell & Co., Vancouver

OFFICES

Head Office—
401 - 1111 West Hastings St., Vancouver
Registered Office—
14th Floor, 1030 West Georgia St., Vancouver
Penticton Office—
44 Padmore Avenue West, Penticton, B.C.
Mine Office—
P.O. Box 330, Peachland, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

A little over a year has passed since we held our first annual general meeting of shareholders. At that meeting, I announced that the Board of Directors had received the feasibility report of our consultants and the Board's decision was to bring Brenda's property into production as quickly as possible.

That announcement touched off a series of events which eventually led to a signing ceremony on April 24, 1968. At that ceremony, representatives from Noranda Mines Ltd., the Bank of Nova Scotia, Nippon Mining Co. Ltd., Mitsui & Co. Ltd., and our Board signed a number of agreements which provided \$60 million to Brenda Mines Ltd. for the construction of the mill and all facilities.

Not many people are aware of the true significance of that signing ceremony. The monies provided by those agreements will build the second largest open pit non-ferrous base metal mine in Canada. That the Brenda property is a mine at all is a tribute to modern mining techniques and technology and also a credit to a few dedicated individuals who through their untiring efforts have made this mine possible.

All that is history now and we can look forward to the completion of construction and the commencement of operations in the fall of 1969. To date, approximately \$20 million has been either spent or committed towards construction, pit and site development and the purchase of equipment.

The Okanagan Valley has already begun to feel the economic impact of this giant industrial development. The long term beneficial effect on an area noted primarily for its agricultural and tourist industries is hard to estimate. Many new businesses, capital

investment and technical and professional people are now being attracted to the area as a result of the development of the Brenda mine.

Although the financing arrangements were not completed until this April, the project has not been delayed. Noranda Mines Ltd., the project managers, have provided not only the money to permit continuous work on the development, but also Noranda has formed the project team by bringing together experts in various fields from its many operations across the country.

FINANCING

The financing agreements signed on April 24, 1968 were the result of lengthy negotiations by your Directors, who were authorized by you at the last annual meeting to negotiate and complete the best possible financing arrangements. As stated previously all the agreements have now been signed by all the parties thereto and are subject only to the formal approval of the Japanese Government to the Nippon-Mitsui agreements. We are now requesting your ratification and approval of your Directors' actions in concluding the agreements. Resolution No. 4 in the notice is the most important to be passed at this year's meeting. Completed copies of the agreements have been available for your inspection as stated in the information circular, but for your consideration I will summarize them here briefly as follows.

1. The Bank of Nova Scotia loan agreement, subject only to Noranda's overrun commitment, provides for the advance of the final monies expected to be necessary for the minimum 20,000 ton per day mill. It provides for a \$21,000,000 term loan with interest at

7½ % per annum. The agreement also provides for a revolving term loan for inventories and receivables of \$4,000,000 with interest at 7% per annum. These loans are secured by a first mortgage charge on all the assets of the company, and by the usual bank security agreements. Provided there has been no event of default the loans are not repayable until June 30, 1973.

2. The Nippon-Mitsui loan agreement provides for the advance of \$6,971,475 U.S. funds with interest at 7.3% per annum. It is repayable after the Bank monies, and in any event by December 31, 1975. This loan is secured by a second mortgage charge on all the assets of the company, subject however, to the Bank's prior charges. In addition Nippon and Mitsui will receive a total of 40,000 fully paid non-assessable shares of the company.

3. The Noranda Loan Agreement provides for the advance of \$27,500,000 with interest at 7.2% per annum, and if the total of \$60,000,000 is insufficient to put the property into production, the agreement further provides for additional advances up to a total of \$15,000,000 to the extent necessary to put the property into production. This will make available, if it becomes necessary, a total of \$75,000,000 to put the property into production with a mill rated at 20,000 tons per day. As previously reported to you the mill will have an actual output of 24,000 tons per day. The Noranda advances have been secured by a third mortgage on the properties and assets of the company. For the \$27,500,000, the first monies now being expended on the property, Noranda will receive income bonds in the aggregate principal amount of \$27,500,000 and a total of 1,740,000 fully paid non-assessable shares of the Company. To the extent additional advances are made,

Noranda will receive 4 fully paid shares and income bonds in the principal amount of \$100 for each additional \$100 advanced to the Company. This could involve a total of a further 600,000 shares if the whole of the \$15,000,000 is advanced. The income bonds are repayable out of the profits and in any event are repayable on or before December 31, 1977.

4. The Noranda Management agreement provided for Noranda's management of your company until such time as Noranda has been repaid. This is a term of Noranda's original commitment to the company, and the Bank has likewise insisted upon it. Noranda will have a minimum of three directors on our Board, one of whom will be the Executive Vice President of the company in charge of almost all of the company's affairs.

The action of your Directors in entering the foregoing four agreements requires your formal ratification, and accordingly I would urge you to vote in favour of the resolution providing for this.

For your general information I should advise that the company has entered into further agreements which your Directors consider advantageous. These do not require formal shareholder ratification, but I will list them briefly.

(a) **The Nippon-Mitsui Copper Concentrate and First Right of Refusal Agreement provides for the purchase by Nippon of all your Company's copper concentrates for the next five years from first production, and that your Company will meet with Nippon before the end of such five year period to negotiate a further agreement.** The agreement also gives Nippon the right of first refusal to purchase copper concentrates from the

DIRECTORS' REPORT TO THE SHAREHOLDERS

Continued

Company, but this right does not extend beyond 1986. As Nippon was a substantial partner in the original financing of the property, it was agreed then that it would have the first right of refusal on our copper concentrates, and this agreement formalizes the earlier agreements made with the Nippon Company.

(b) Under the Noranda Sales Agency agreement the company has appointed a subsidiary of Noranda Mines, **Noranda Sales Corporation Ltd., as the selling agent** for your company's molybdenum products for a **minimum of 5 years from first production.**

Your Directors are pleased with the sales arrangements they have made with the above companies, and feel they will be most beneficial in years to come.

Although you have been advised by other company reports of the expected share position of the company by the time it goes into production, I will briefly recite it again here for your information.

Upon the entry of the agreements, the company had issued and outstanding	2,410,000 shares
Nippon-Mitsui will be issued a total of	40,000 shares
Noranda Mines for the \$27.5 million advance will be issued a total of	<u>1,740,000 shares</u>
Total to be issued*	<u>4,190,000 shares</u>

(*) As detailed in paragraph 3 above, the company may have to issue up to 600,000 additional shares. The company has also reserved 50,000 shares for options to key employees.

It will therefore be noted that your company should be into production with a very reasonable total of outstanding and issued shares, in comparison to the

financing that has been effected by other companies. Your Directors feel that the equity position of your company's shareholders has been well protected.

I trust the foregoing will assist you in understanding the resolutions requiring your approval.

CONSTRUCTION PROGRESS TO DATE

A few of the highlights of the progress on the project to date are set out below in the report of our General Manager, Mr. John Hall:

"I submit herewith my report covering the status of work completed and in progress to May 15, 1968.

The 14 mile gravel road from Peachland was completed with the Province bearing 47% of the cost. Stripping for pit preparation reached a production rate of 150,000 tons per month. This rate will be increased to 600,000 tons per month with the delivery of larger mining equipment. Three 100-ton trucks and one 11-cubic yard shovel are being assembled at the mine and a large rotary drill will be in operation by June 30, 1968. The power line to the open pit was installed and the British Columbia Hydro and Power Authority completed the main power line ahead of schedule.

Construction camps, guard house and sewage lagoon are in service. Clearing, grading and rock excavation work for the plant area was 90% completed. A concrete batching plant was installed at the site. Excavations and foundations have begun for the concentrator and service buildings and construction was started on five staff houses in Peachland. Contracts were awarded for structural steel and for the concrete outlet at the main

water dam. The access road to the main tailings dam was started in April. The construction crew averaged 160 men during the first quarter of 1968.

Final engineering design and detail of the crushing, screening, ore storage grinding and flotation areas progressed on schedule. Purchase orders were placed for all the major functional process equipment.

The project has not progressed to the stage where a final detailed cost calculation can be made. Tailings disposal and some other items will cost more than originally estimated but the overall estimate of \$60 million still appears in range."

I think it is evident from Mr. Hall's report that a great deal has been accomplished to date. The amount of work remaining however is substantial but with the very capable project staff's efforts and the fact that we are presently on schedule would indicate that we will be within our target date, the latter part of 1969. As stated by Mr. Hall and from present contract arrangements, it would appear that we will complete the project within the original target estimate of \$60,000,000.

ORE RESERVES

On the basis of computer studies, Noranda has advised that the proposed pit ore contains reserves estimated at 177 million tons grading 0.183% Cu. and 0.049% Mo. These reserves include 26 million tons to be mined during the first three years grading 0.212% Cu and 0.063% Mo. Metallurgical tests conducted by Noranda have indicated a potential recovery of 88% for Copper and 82% for moly in separate concentrates, at the grade of ore to be mined initially.

As your President, I strongly feel that a great deal of thanks should be given to your Brenda Directors and senior staff. I also wish to acknowledge the great cooperation given by Noranda Mines Limited, Nippon Mining Co. Ltd., and the Bank of Nova Scotia in concluding the financing arrangements for this tremendous mining project.

Submitted on behalf of the Board,



B. O. BRYNELSEN,
President

May 29, 1968.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1967 and the statements of mine development and preproduction expenditure and source and application of funds for the period from December 1, 1966 to December 31, 1967. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1967 and the results of its operations and the source and application of its funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, British Columbia
April 25, 1968

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

BALANCE SHEET

December 31, 1967

*(With comparative figures as of November 30, 1966)***ASSETS**

Current assets:

Short-term deposits

1967

\$ —

1966

\$ 192,350

Receivables

149,531

88,474

Total current assets

149,531

280,824

Refundable power deposit (Note 1)

1,450,000

75,000

Mining properties under option to purchase

—

25,000

Property, plant and equipment, at cost (Notes 2, 3 and 4):

Mining properties

205,987

151,887

Pilot mill

239,597

235,870

Camp buildings

79,181

79,181

Other machinery and equipment

72,441

49,464

Leasehold improvements

31,156

34,845

Construction in progress

1,567,640

—

Total property plant and equipment

2,196,002

551,247

Mine development and preproduction expenditure,
per accompanying statement

2,988,317

1,771,581

Incorporation expense

10,393

10,393

\$6,794,243\$2,714,045


LIABILITIES AND SHAREHOLDERS' EQUITY

	1967	1966
Current liabilities:		
Bank overdraft	\$ 90,011	\$ —
Accounts payable and accrued liabilities	<u>851,234</u>	<u>324,047</u>
Total current liabilities	941,245	324,047
Advances from Noranda Mines Ltd.	2,783,000	—
Shareholders' equity:		
Capital stock (Note 6):		
Shares without nominal or par value.		
Authorized 5,000,000 shares; issued 2,410,000 shares	3,069,998	2,389,998
Commitment (Note 5).		

Approved on behalf of the Board:



B. BRYNELSEN, Director



M. E. DAVIS, Director

\$6,794,243

\$2,714,045

See accompanying notes to financial statements

**STATEMENT OF MINE DEVELOPMENT
AND PREPRODUCTION EXPENDITURE**

Period from December 1, 1966 to December 31, 1967

	<i>Balance at beginning of period</i>	<i>Expenditure during period</i>	<i>Balance at end of period</i>
Drilling	\$ 437,562	\$ 22,719	\$ 460,281
Bulk sampling	355,708	5,451	361,159
Engineering works and services	87,430	18,990	106,420
Mine preparation	31,730	391,639	423,369
Pilot mill engineering and operating costs	185,960	76,311	262,271
Surveying	111,646	33,116	144,762
General property expense	134,503	53,688	188,191
Assaying	44,186	19,961	64,147
Supervisory consultants	71,078	53,313	124,391
Camp operating	159,833	43,380	203,213
Administration	128,195	479,312	607,507
Outside exploration	52,824	19,376	72,200
	<u>1,800,655</u>	<u>1,217,256</u>	<u>3,017,911</u>
Less interest income	29,074	520	29,594
	<u>\$1,771,581</u>	<u>\$1,216,736</u>	<u>\$2,988,317</u>

**STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

Period from December 1, 1966 to December 31, 1967

Funds provided by:

Advances from Noranda Mines Ltd.

\$2,783,000

Shares issued for cash

680,000

Total funds provided

3,463,000

Funds applied to:

Payments on refundable power deposit

\$1,375,000

Purchase of property, plant and equipment

52,115

Construction in progress

1,567,640

Mine development and preproduction expenditure

1,216,736

4,211,491

Increase in working capital deficiency

\$ 748,491

BRENDA MINES LTD.

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1967**

BRENDA MINES LTD.

1. Refundable power deposit:

The company has accepted the proposal of B.C. Hydro & Power Authority to supply the mine site with electricity sufficient to meet the estimated requirements when the mill becomes operative. Although an agreement has not been signed with the Authority, funds have been advanced to it by the company according to a schedule of payments, to cover clearing and construction costs. To December 31, 1967, the total advanced was \$1,450,000 and further advances of \$550,000 will be made in monthly instalments to March 15, 1968. It is expected that an agreement will be signed with the Authority calling for a commitment by the company to pay a minimum of \$500,000 a year for power and the refund of the company's deposit in equal annual instalments over eight years with interest at 5% per annum.

2. Mining properties:

On February 10, 1967, the company acquired certain mineral claims from BrenMac Mines Ltd. (N.P.L.) and agreed to pay BrenMac \$84,000 and to carry out a drilling programme to be completed within a year from the date its mill goes into production. However, if the company's mill is not in production by February 10, 1969, and the company has not previously elected to make the payment, the foregoing obligation will be cancelled and the claims will be returned to BrenMac. The agreement also provides for an additional payment to BrenMac of \$416,000 if these claims show ore in commercial quantities but are not put in production within five years, or \$84,000 if the ore is not in commercial quantities. If these claims are mined, BrenMac will be entitled to 30% of net proceeds of production.

3. Sales of mining properties:

On December 10, 1966, the company transferred certain mineral claims at Kathleen Mountain to BrenMac Mines Ltd. (N.P.L.). BrenMac is required to spend up to \$160,000 by August 15, 1970, in the exploration of these and another group of claims which it already owns. In the event that mining development of these claims is warranted, an operating company would be formed and Brenda Mines Ltd. would be required to provide all the necessary financing or its interest would lapse. The company and BrenMac would each hold 50% of the shares of the operating company. If BrenMac does not make the required expenditure, the claims revert to Brenda.

4. Property, plant and equipment:

No provision for depreciation of fixed assets has been made in the accounts to December 31, 1967.

5. Commitment:

It is estimated that it will cost \$60,000,000 to bring the mining property into production and contractual obligations amounting to \$6,300,000 had been entered into at December 31, 1967, relating to this expenditure. On April 24, 1968, financing arrangements required to bring the property into production were finalized as follows:

5. Commitment (continued)

Bank loans secured by a first mortgage, a general assignment of receivables and a charge on inventories. Interest will be charged at 7½ % on \$21,000,000 (capital loan) and 7% on \$4,000,000 (revolving operating credit) \$25,000,000

Nippon Mining Co. Ltd. and Mitsui & Co. Ltd.:
7.3% Second mortgage debenture bonds (\$6,971,475 U.S. funds) 7,500,000

Noranda Mines Ltd.:
7.2% Income bonds, secured by a third charge, of which \$2,783,000 had been advanced at December 31, 1967 27,500,000
\$60,000,000

As part of the financing arrangements Noranda, Nippon and Mitsui will receive respectively 1,740,000, 24,000 and 16,000 fully paid and non-assessable common shares.

Noranda has undertaken to provide, until July 1, 1973, any additional funds which may be necessary up to a maximum of \$15,000,000 secured by income bonds and would receive 4 fully paid and non-assessable common shares for each \$100 of such additional funds provided.

6. Capital stock:

Shares issued:

At November 30, 1966:

For mining properties	749,980	shares for	\$ 149,996
For cash	1,575,000	shares for	2,240,000
Issued at time of incorporation	20	shares for	2
	<u>2,325,000</u>		<u>2,389,998</u>

Shares issued during the period:

To Noranda Mines Ltd. for cash @ \$8.00 each	85,000	shares for	680,000
	<u>2,410,000</u>		<u>\$3,069,998</u>

7. Payments were made during the period to directors amounting to \$20,000.

